



SECRETARY OF STATE STATE OF INDIANA

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SECRETARY OF STATE

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Letter to the Editors of Indiana Newspapers
By Indiana Secretary of State Todd Rokita

Now is the Time to Strengthen, Not Weaken, Investor Protection

Throughout the last decade, more and more Hoosiers chose to invest money in the stock market and other ventures. What is troubling is that as the number of people investing in the market has increased, so too has the number of incidents of fraud and investor abuse on Wall Street. As Indiana's chief securities regulator, I do not understand how anyone could even consider disarming the local cops on the securities beat. Now is the time to strengthen, not weaken investor protection. Yet that is exactly what some in Congress have proposed.

The House Financial Services Committee is expected, early next month, to consider legislation ("The Securities Fraud Deterrence and Investor Restitution Act," H.R. 2179), that will make it significantly more difficult for state securities regulators to do our jobs – a job often described as the local cop on the beat and the market's early warning system for fraud and abuse.

At the outset, I want to make it clear that I have joined my fellow state securities regulators in strong support of seven of the eight provisions of H.R. 2179. This is important legislation with many powerful resources to help the SEC. To make sure this legislation remains a "fraud deterrence" act, Congress must remove one provision, Section 8(b), or what the Consumer Federation of America rightly called a "poison pill" in this otherwise pro-investor bill.

As amended, Section 8(b) of H.R. 2179 would restrict state securities regulators from taking the day-to-day actions that protect our investors. This provision would limit our ability to impose requirements that go beyond federal requirements as part of enforcement, licensing, or other regulatory proceedings.

The states spoke up early and brought enforcement actions regarding problems with micro-cap fraud, online trading, day trading and research analysts. After our initial enforcement actions, we joined with the SEC, the NASD/Nasdaq and the NYSE to contribute to rules overseen by the SEC for the national market place. We are committed to solving problems we find in our jurisdictions and leaving the rulemaking to the SEC.

States currently have full authority to fashion remedies for a variety of problems. For example, we can require firms to conduct special supervision, re-educate brokers, monitor trading, make special disclosures to investors, conduct special audits or reviews and produce reports to state regulators to demonstrate compliance. All of these measures could be prohibited by this amendment.

Securities regulation at the state level is an indispensable tool in fighting investor fraud and abuse. It bears repeating: the states investigate and bring enforcement actions; they do not engage in rulemaking for the national markets. That is rightly the purview of the SEC and self-regulatory organizations.

Our unique complementary system of state, industry and federal securities regulation ensures fair markets for all investors. Undermining this successful system by handcuffing state securities regulators is a giant leap backward.

State securities regulators have a long record of success in protecting investors at the local level largely by doing what this provision would prevent. I urge Congress to remove Section 8(b) from this otherwise much needed investor protection legislation.

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